

1997

# California Adjustments — Nonresidents or Part-Year Residents

CA (540NR)

**Important:** Attach this schedule directly behind Form 540NR, Side 2.

Name(s) as shown on return

Social security number

**Part I Residency Information.** You must complete all lines that apply to you and your spouse.

Yourself

Spouse

**During 1997:**

- 1 I was in the military and I was: domiciled in (enter state) . . . . .  
stationed in (enter state or country) . . . . .
- 2 I became a California resident (enter state of prior residence and date of move) . . . . .
- 3 I became a nonresident (enter new state of residence and date of move) . . . . .
- 4 I was a nonresident of California the entire year (enter state or country of residence) . . . . .
- 5 The number of days I spent in California (for **any** purpose) is: . . . . .
- 6 I owned a home/property in California (enter "yes" or "no") . . . . .

**Before 1997:**

- 7 I was a California resident for the period of (enter dates) . . . . .
- 8 I entered California on (enter date) . . . . .
- 9 I left California on (enter date) . . . . .

**Part II Income Adjustment Schedule****A****B****C****D****E****Section A — Income**Federal Amounts  
(taxable amounts  
from your federal  
return)Subtractions  
See instructionsAdditions  
See instructionsTotal Amounts  
Using CA Law  
(subtract column B  
from column A; add  
column C to the  
result)CA Amounts  
(income earned or  
received as a CA  
resident and income  
earned or received  
from CA sources as  
a nonresident)

|    |  |     |                            |                            |    |    |
|----|--|-----|----------------------------|----------------------------|----|----|
| 7  | Wages, salaries, tips, etc. See instructions before making an entry in column B or C   | 7   |                            |                            |    |    |
| 8  | Taxable interest income . . . . .  | 8   |                            |                            |    |    |
| 9  | Dividend income . . . . .  | 9   |                            |                            |    |    |
| 10 | State tax refund. Enter the same amount in column A and column B. . . .  | 10  |                            |                            |    |    |
| 11 | Alimony received . . . . .   | 11  |                            |                            |    |    |
| 12 | Business income or (loss) . . . . .  | 12  |                            |                            |    |    |
| 13 | Capital gain or (loss) . . . . .   | 13  |                            |                            |    |    |
| 14 | Other gains or (losses) . . . . .  | 14  |                            |                            |    |    |
| 15 | IRA distribution. See instructions.<br>(a) . . . . . (b) . . . . .   | (b) |                            |                            |    |    |
| 16 | Pensions and annuities. See instructions.<br>(a) . . . . . (b) . . . . .   | (b) |                            |                            |    |    |
| 17 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. . . . .  | 17  |                            |                            |    |    |
| 18 | Farm income or (loss) . . . . .  | 18  |                            |                            |    |    |
| 19 | Unemployment compensation . . . . .  | 19  |                            |                            |    |    |
| 20 | Social security benefits (a) . . . . . (b) . . . . .   | (b) |                            |                            |    |    |
| 21 | Other income.<br>a California lottery winnings<br>b Disaster loss carryover from FTB 3805V<br>c Federal NOL (Form 1040, line 21)<br>d NOL carryover from FTB 3805V<br>e NOL from FTB 3805Z, FTB 3806 or FTB 3807<br>f Other (describe) . . . . . | 21  | a<br>b<br>c<br>d<br>e<br>f | a<br>b<br>c<br>d<br>e<br>f | 21 | 21 |

22a **Total:** Combine line 7 through line 21 in each column.

Continue to Side 2. . . . 22a

| Income Adjustment Schedule        |   | A   | B                                | C                             | D   | E   |
|-----------------------------------|---|---|----------------------------------|-------------------------------|---|---|
| Section B — Adjustments to Income |   | Federal Amounts<br>(taxable amounts<br>from your federal<br>return) | Subtractions<br>See instructions | Additions<br>See instructions | Total Amounts<br>Using CA Law<br>(subtract column B<br>from column A; add<br>column C to the<br>result) | CA Amounts<br>(income earned or<br>received as CA<br>resident and<br>income earned or<br>received from CA<br>sources as a<br>nonresident) |
| 22b                               | Enter totals from<br>Schedule CA (540NR), Side 1,<br>line 22a, column A through column E . . . . .  | 22b   |                                  |                               |   |   |
| 23                                | IRA deduction. . . . .  | 23  |                                  |                               |   |   |
| 24                                | Medical savings account deduction . . . . .   | 24  |                                  |                               |   |   |
| 25                                | Moving expenses. . . . .  | 25  |                                  |                               |   |   |
| 26                                | One-half of self-employment tax . . . . .   | 26  |                                  |                               |   |   |
| 27                                | Self-employed health insurance deduction . . . . .  | 27  |                                  |                               |   |   |
| 28                                | Keogh/self-employed SEP/SIMPLE plans. . . . .   | 28  |                                  |                               |   |   |
| 29                                | Penalty on early withdrawal of savings. . . . .   | 29  |                                  |                               |   |   |
| 30a                               | Alimony paid. (b) Enter recipient's:<br>SSN _____<br>Full name _____  | 30a   |                                  |                               |   |   |
| 31                                | Add line 23 through line 30a<br>in each column, A through E . . . . .   | 31  |                                  |                               |   |   |
| 32                                | <b>Total.</b> Subtract line 31 from line 22b<br>in each column, A through E . . . . .   | 32  |                                  |                               |   |   |
| 33                                | Ratio. Divide line 32, column E by line 32, column D.<br>Carry the decimal to five places. Then round it to four places by dropping amounts 4 and under (.44454 becomes .4445)<br>and rounding up to the next number for amounts 5 and over (.44455 becomes .4446). This number may be greater<br>than 1.0000. Enter the result here and on Form 540NR, line 25a. Note: If the result is zero or less, enter -0- on<br>Form 540NR, line 25a . . . . . |   |                                  |                               |   |   |
|                                   |   |   |                                  |                               |   | 33 _____  |

### Part III Adjustments to Federal Itemized Deductions

|    |   |    |       |
|----|---|----|-------|
| 34 | Federal itemized deductions. Add the amounts on federal Schedule A (Form 1040),<br>lines 4, 9, 14, 18, 19, 26, and 27 (or Schedule A (Form 1040NR), lines 3, 7, 8, 15 and 16) . . . . . | 34 | _____ |
| 35 | Enter total of federal Schedule A, line 5 (state and local income tax <b>and</b> State Disability Insurance)<br>and line 8 (foreign taxes <b>only</b> ) . . . . .                       | 35 | _____ |
| 36 | Subtract line 35 from line 34 . . . . .   | 36 | _____ |
| 37 | Other adjustments including California lottery losses. See instructions. Specify _____  | 37 | _____ |
| 38 | Combine line 36 and line 37 . . . . .   | 38 | _____ |

#### 39 California itemized deductions

**Is your federal AGI (Form 540NR, line 13)  
more than the amount shown below for  
your filing status?**

If single or married filing separate . . . \$114,152  
If head of household . . . . . \$171,228  
If married filing joint or qualifying  
widow(er) . . . . . \$228,305

**NO.** Transfer the amount on line 38 to  
line 39.

**YES.** Complete the Itemized Deductions  
Worksheet in the instructions for  
Schedule CA (540NR), line 39.

**Is the amount you entered on line 39  
more than your standard deduction  
below?**

Single or married filing separate . . . \$2,583  
Married filing joint, head of  
household or qualifying widow(er). . . \$5,166

**YES.** Transfer the amount on line 39  
to Form 540NR, line 18

**NO.** Enter your standard deduction on  
Form 540NR, line 18.

39 \_\_\_\_\_



# Instructions for Schedule CA (540NR)

These instructions are based on the Internal Revenue Code (IRC) as of **January 1, 1997**, and the California Revenue and Taxation Code (R&TC).

## General Information

### Differences Between California and Federal Law

Due to California legislation enacted in 1997, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1997, and to selected provisions of the federal Taxpayer Relief Act of 1997 (Public Law 105-34). For example, California law and federal law are the same regarding:

- Exclusion of gain on the sale of personal residence;
- New federal Individual Retirement Account (IRA) provisions; and
- Self-employed health insurance deduction.

Specific differences include:

**IRC Section 179 expense deduction.** The California maximum deduction is \$13,000; the federal maximum deduction is \$18,000. In many cases, this difference also affects the California basis and depreciation deduction for qualifying assets. Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the adjustment.

**IRC Section 197 property.** Property qualifying as Section 197 property for federal purposes is also Section 197 property for California purposes. However, for qualifying property acquired before January 1, 1994, the California adjusted basis as of January 1, 1994, must be amortized over the remaining federal amortization period. Use form FTB 3885A to figure the adjustment.

**Material participation in rental real estate activities.** Beginning in 1994, and for federal purposes only, rental real estate activities conducted by persons in a real property business are not automatically treated as passive activities. See form FTB 3801, Passive Activity Loss Limitations, for more information.

**Exclusion for compensation from exercising a California Qualified Stock Option (CQSO).** The exclusion is available beginning January 1, 1997, for qualified stock issued on or after January 1, 1997. See instructions for line 7 for more information.

## Purpose

Use this schedule to identify income being taxed by California; and to compute the ratio of your **California adjusted gross income (AGI) to total AGI from all sources using California law**; and to adjust your federal itemized deductions using California law. The parts of the ratio are defined as follows:

- **Total AGI from all sources using California law** is all of your income from all sources, including income from inside and outside California. You compute it by adjusting federal AGI for the differences between federal and California law.
- **California AGI** is:
  - ◆ All income from all sources (inside and outside California) for any part of the year during which you were a California resident; and
  - ◆ All income from California sources while you were a nonresident of California.

Once you compute the ratio, you transfer it to Form 540NR to determine your California nonresident or part-year resident tax liability.

## Specific Line Instructions for PART I Residency Information

Answer all the questions in this part for you and your spouse. If a question does not apply, please enter "NA" on the line for the answer. It may be helpful to get FTB Pub. 1031, Guidelines for Determining Resident Status, for more information.

### Line 1 – I was in the military

If either spouse was in the military, your state of domicile is generally the state where you were living when you first entered the military.

### Line 5 – The number of days I spent in CA

The total number of days in California should include all days in California for any purpose including residency, business and vacation.

## Specific Line Instructions for PART II Income Adjustment Schedule

### Column A – Federal Amounts

Enter all taxable amounts shown on your federal return on the corresponding lines in column A.

If you are married filing separate under either exception described in the instructions for Form 540NR and are filing a separate California return, enter in column A the amounts you would have reported on a separate federal return. Attach a statement to the return showing how the income and expenses were split between you and your spouse.

### Line 7 through Line 21

Enter on line 7 through line 21 the same amounts you entered on your federal Form 1040, line 7 through line 21 (or on your Form 1040A, line 7 through line 13b; your Form 1040EZ, line 1, line 2 and line 3; or your Form 1040NR, line 8 through line 21 for the same types of income).

Also enter the following if applicable:

- The total IRA distribution received on line 15(a);
- The total pension or annuity distribution received on line 16(a);
- The total social security retirement benefit received on line 20(a); and
- The social security number and last name of the person to whom you paid alimony on line 30(b).

If you used Form 1040A, refer to line 11a and line 13a. If you used Form 1040NR, refer to line 16a and line 17a.

### Line 22a – Total

Combine the amounts on line 7 through line 21. Enter the total on line 22a. This number should be the same as the amount on your federal Form 1040, line 22 (or your Form 1040A, line 14; or your Form 1040EZ, line 4; or your Form 1040NR, line 23).

### Line 22b – Balance Carried Forward

Enter on line 22b the total from Side 1, line 22a, column A.

### Line 23 through Line 30a

Enter the same amounts you entered on your federal Form 1040, line 23 through line 30a (or your Form 1040A, line 15; or your Form 1040NR, line 24 through line 30).

### Line 31

Add line 23 through line 30a. This amount should be the same as the amount on your federal Form 1040, line 31 (or your Form 1040A, line 15; or your Form 1040NR, line 31). However, if you made any of the adjustments described in the instructions for federal Form 1040, line 31 or if you claimed the foreign housing deduction from federal Form 2555, enter the amount from Form 1040, line 31 on this line.

### Line 32 – Total

Subtract line 31 from line 22b. This amount should be the same as the amount on your federal Form 1040, line 32 (or your Form 1040A, line 16; or your Form 1040EZ, line 4; or your Form 1040NR, line 32).

## Column B and Column C – Subtractions and Additions

Use these columns to enter subtractions and additions to federal amounts in column A that are necessary because of the differences between California and federal law. Enter all amounts on line 7 through line 31 as positive numbers.

**Do not** enter in column B or column C income earned outside California during periods of non-residency.

**Note:** If you are a nonresident alien, use column B and column C, to adjust federal AGI to include income from all sources, even if you were not required to report it on your federal return. California does not have special rules limiting total AGI from all sources to U.S. source or effectively connected income of nonresident aliens.

You may need one of the following publications to complete column B and column C:

- 1001, Supplemental Guidelines to California Adjustments;
- 1005, Pension and Annuity Guidelines; or
- 1032, Tax Information for Military Personnel.

To order a publication or form, see the back cover of your tax booklet.

### Line 7 – Wages, Salaries, Tips, etc.

Generally, you will not make any adjustments on this line. If you did not receive any of the kinds of income listed below, make no entry on this line in either column B or column C.

**Active duty military pay.** Special rules apply to active duty military taxpayers. Get FTB Pub. 1032 for more information.

**Ride-sharing benefits or sick pay received under the Federal Insurance Contributions Act and Railroad Retirement Act.** California excludes these items from income. Enter in column B the amount of these benefits included in the amount in column A.

**Income exempted by U.S. tax treaties (unless specifically exempt for state purposes also).** If you excluded this income from your federal

return, enter the excluded amount in column C. If you claimed foreign earned income or housing cost exclusion under IRC Section 911, see the instructions for line 21. Get FTB Pub. 1001 for more information.

**Exclusion for compensation from exercising a California Qualified Stock Option (CQSO).** To be eligible for this exclusion: your earned income must be \$40,000 or less; the market value of the options granted to you must be \$100,000 or less; and the total number of shares must be 1,000 or less. If you included in federal income an amount qualifying for this exclusion, enter that amount in column B.

#### Line 8 – Taxable Interest Income

If you did not receive any of the kinds of income listed below, make no entry on this line in either column B or column C. Otherwise, follow the instructions below.

Enter in column B, the interest that you received from:

- United States saving bonds;
- United States treasury bills; and
- Any other bonds or obligations of the United States and its Territories.

Get FTB Pub. 1001 if you received interest income from sources listed below.

- A. Loans made in an enterprise zone (EZ), program area or the Los Angeles Revitalization Zone (LARZ); or
- B. Items listed above passed through to you from S corporations, trusts, partnerships or limited liability companies (LLCs).

**Do not** make entries in either column B or column C for interest you earned on Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporations (FHLMC) securities.

Enter in column C, the interest you identified as tax-exempt interest on your federal Form 1040 (or 1040A), line 8b; or Form 1040NR, line 9b which you received from:

- Non-California state bonds;
- Non-California municipal bonds issued by a county, city, town or other local government unit;
- Obligations of the District of Columbia issued after December 27, 1973; and
- Non-California bonds if the interest was passed through to you from S corporations, trusts, partnerships or LLCs.

#### Line 9 – Dividend Income

Generally, you will not make an adjustment on this line. However, certain mutual funds are qualified to pay "exempt-interest dividends" if at least 50% of their assets consist of tax-exempt government obligations. The portion of the dividend income that is tax-exempt will be shown on your annual statement from the mutual fund.

If the California exempt-interest amount is more than the federal exempt-interest amount, enter the difference in column B.

Get FTB Pub. 1001 if you received dividend income from:

- Noncash patronage dividends from farmers' cooperatives or mutual associations;
- A federal S corporation that is a California C corporation;
- A controlled foreign corporation;
- Distribution of pre-1987 earnings from S corporations;

- Undistributed capital gains for regulated investment company (RIC) shareholders; or
- Distributed capital gain dividends.

#### Line 10 – State Tax Refund

California does not tax the state income tax refund you received in 1997. Enter in column B, the amount of state tax refund you entered in column A.

#### Line 11 – Alimony Received

If you are a nonresident alien and received alimony that was not included in your federal income, enter the alimony on this line in column C. Otherwise, make no entry on this line.

#### Line 12 – Business Income or (Loss)

You may need to adjust federal business income or loss you reported in column A because of the difference between California and federal law relating to depreciation methods, special credits and accelerated write offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the amount used for federal purposes. Adjustments are figured on form FTB 3885A and are most commonly necessary because:

**Before January 1, 1987**, California did not allow depreciation under the federal accelerated cost recovery system, and you must continue to figure California depreciation for those assets in the same manner as prior years.

**On or after January 1, 1987**, California provides special credits and accelerated write offs that affect the California basis of qualifying assets. Refer to the bulleted list below. Also, California does not conform to certain federal provisions. See the items listed under "General Information."

**Note:** If any of your business activities is a passive activity that produces a loss, complete form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the passive activity loss allowable under California law.

If you are engaged in more than one business activity, use a separate form FTB 3885A to report the adjustments for each activity.

Get FTB Pub. 1001 for more information about:

#### Income related to:

- Business, trade or profession carried on within California that is an integral part of a unitary business carried on both within and outside California;
- Pro rata share of income received from a controlled foreign corporation by a U.S. shareholder; or
- Retail lessee construction or improvement allowances received under leases entered into after 8/5/97.

#### Basis adjustments related to:

- Property acquired prior to becoming a California resident;
- Sales or use tax credit for property used in an EZ, program area, LARZ or Local Agency Military Base Recovery Area (LAMBRA);
- Reduced recovery periods for fruitbearing grapevines replaced in a California vineyard on or after 1/1/92 as a result of phylloxera infestation;
- Reduced recovery periods for fruit-bearing grapevines replaced in a California vineyard on or after 1/1/97 as a result of Pierce's disease;
- Expenditures for tertiary injectants;

- Certain property placed in service on an Indian reservation after 1/1/94 and before 12/31/2003;
- Amortization of pollution control facilities;
- Discharge of real property business indebtedness;
- Employer-paid child care center and services;
- Employer-paid child care plan;
- Vehicles used in an employer-sponsored ridesharing program;
- An enhanced oil recovery system;
- The cost of making a business accessible to disabled individuals;
- Property for which you received an energy conservation subsidy from a public utility on or after 1/1/95 and before 1/1/97; or
- Research and experimental expenditures.

#### Business expense deductions related to:

- Wages paid in an EZ, program area, LARZ or LAMBRA; or
- Certain employer costs for employees who are also enrolled members of Indian tribes;
- Abandonment or tax recoupment fees for open-space easements and timberland preserves;
- Club dues or payments made to a club which restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin;
- Lobbying expenses denied under IRC Section 162;
- Business located in an EZ, program area, LARZ or LAMBRA;
- Research expense;
- Employer wage expense for Work Opportunity Credit;
- Pro-rata share of deductions received from a controlled foreign corporation by a U.S. shareholder;
- Qualified clinical testing expenses incurred after 5/31/97 for Orphan Drug Credit;
- Qualified environmental cleanup costs paid or incurred after 8/5/97;
- Inventory shrinkage for tax years ending after 8/5/97;
- Interest paid on indebtedness in connection with company-owned life insurance policies; or
- Premiums paid on life insurance policies, annuities or endowment contracts issued after 6/8/97 where the owner of the business is directly or indirectly a policy beneficiary.

#### Line 13 – Capital Gain or (Loss)

Generally, you will not make any adjustments on this line if you do not have any of the items listed below.

Use Schedule D, California Capital Gain or Loss Adjustment, if you have differences from:

- Basis amounts resulting from differences between California and federal law in prior years;
- Gain or loss on stock and bond transactions;
- Installment sale gain reported on form FTB 3805E, Installment Sale Income;
- Gain on the sale of personal residence where depreciation was allowable;
- Flow-through gain or loss from partnerships, fiduciaries, S corporations or LLCs; or
- Capital loss carryover from your 1996 California Schedule D.

Get FTB Pub. 1001 for more information about:

- Disposition of S corporation stock acquired before 1987;

- Gain on the sale or disposition of a qualified assisted housing development to low income residents or to specified entities maintaining housing for low income residents;
- Undistributed capital gain for regulated investment company (RIC) shareholders;
- Gain or loss on the sale of property inherited before 1/1/87;
- Capital loss carrybacks;
- Gain realized on the sale or exchange of qualified small business stock occurring after 8/5/97;
- Gain or loss from the cancellation, lapse, expiration or other termination of a right or obligation with respect to real property and nonactively traded personal property occurring after 9/5/97; or
- Gain on the sale of livestock, sold due to flood or other weather-related conditions, after 12/31/96.

#### Line 14 – Other Gains or (Losses)

The California basis of your other assets may not be the same as the federal basis due to differences between California and federal law. Therefore, you may have to adjust the amount of other gains or losses. Get Schedule D-1, Sales of Business Property, to figure the adjustment.

#### Line 15 – IRA Distribution

Generally, you will not make any adjustments on this line. However, there may be significant differences in the taxable amount depending on when you made your contributions to the IRA. Differences may also occur if you changed your residency status after you first began making contributions to your IRA or if your California IRA deductions were different from your federal deductions because of differences between California and federal self-employment income.

If the taxable amount using California law is:

- Less than the amount taxable under federal law, enter the difference in column B; or
- More than the amount taxable under federal law, enter the difference in column C.

Get FTB Pub. 1005 for more information.

#### Line 16 – Pensions and Annuities

Generally, you will not make any adjustments on this line. However, if you received tier 2 railroad retirement benefits or partially taxable distributions from a pension plan, you may need to make the adjustments described below.

If you received a federal Form RRB 1099-R for railroad retirement benefits and included all or part of these benefits in taxable income in column A, enter the taxable benefit amount in column B.

If you began receiving a retirement annuity between 7/1/86 and 1/1/87 and elected to use the three-year rule for California purposes and the annuity rules for federal purposes, enter in column C the amount of the annuity payments you excluded for federal purposes.

If you received an annuity on or after 1/1/97 for survivor benefits as a spouse, former spouse or child of a public safety officer killed in the line of duty on or after the same date, you must generally enter in column C the amount of the annuity payments that you excluded for federal purposes.

#### Line 17 – Rental Real Estate, Royalties, Partnerships, S corporations, Trusts, etc.

You may need to adjust federal income or loss you reported in column A because of the difference between California and federal law relating to depreciation methods, special credits and

accelerated write offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the recovery period or amount used for federal purposes. For more information about the types of income and adjustments that often require adjustments, see the instructions for Schedule CA (540NR), line 12.

**Note:** If any of your activities is a passive activity that produces a loss, complete form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the passive activity loss allowable under California law.

**Note:** LLCs that are classified as partnerships for California purposes and limited liability partnerships (LLPs) are subject to the same rules as other partnerships. LLCs report distributive items to members on Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc. LLPs report to their partners on Schedule K-1 (565), Partners Share of Income, Deductions, Credits, etc.

Get FTB Pub 1001 for more information about:

- Accumulation distribution to beneficiaries for which the trust was not required to pay California tax because the beneficiary's interest was contingent.

#### Line 18 – Farm Income or Loss

You may need to adjust the federal income or loss you report in column A because of the difference between California and federal law relating to depreciation methods, special credits and accelerated write offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the amount used for federal purposes. For more information about the types of income and adjustments that often require adjustments, see the instructions for Schedule CA (540NR), line 12.

**Note:** If your farm activity is a passive activity that produces a loss, complete form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the passive activity loss allowable under California law.

#### Line 19 – Unemployment Compensation

Enter on line 19, column B, the amount of unemployment compensation shown in column A.

#### Line 20 – Social Security Benefits

Enter in column B the amount of social security benefits or equivalent tier 1 railroad retirement benefits shown in column A.

#### Line 21 – Other Income

##### a. California Lottery Winnings

Enter in column B the amount of California Lottery winnings included in the federal amount on line 21 in column A.

**Note:** Do not include lottery winnings from other states. They are taxable to California.

##### b. Disaster Loss Carryover from FTB 3805V

If you have a California disaster loss carryover from your 1996 form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations, enter that amount as a positive number in column B.

##### c. Federal NOL Deduction from Form 1040, line 21

If the amount on line 21 in column A includes a federal NOL deduction, enter the amount of the federal NOL deduction as a positive number in column C. Get form FTB 3805V to figure the allowable California NOL deduction.

##### d. NOL Carryover from FTB 3805V

The allowable NOL carryover under California law is different from the allowable NOL carryover under federal law. Use form FTB 3805V to figure the allowable California NOL deduction, and enter it as a positive number in column B.

**Note:** If your 1996 form FTB 3805V has both disaster loss carryovers and NOL carryovers, you will need to separately state these two amounts. See line 21b, for disaster loss carryovers.

##### e. NOL Deduction from FTB 3805Z, FTB 3806 or FTB 3807

If you have an NOL deduction on form:

- FTB 3805Z, Enterprise Zone Deduction and Credit Summary, line 4b; or
- FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary, line 4b; or
- FTB 3807, Local Agency Military Base Recovery Area (LAMBRA) Deduction and Credit Summary, line 4b,

enter in column B the total NOL deduction figured on these forms.

##### f. Other (describe)

**Reward from a crime hotline.** Enter in column B the amount of a reward that was authorized by a government agency, that you received from a crime hotline established by a government agency or nonprofit organization and that is included in the amount on line 21 in column A.

**Note:** You may not make this adjustment if you are an employee of the hotline or someone who sponsors rewards for the hotline.

**Payments for alternative transportation (free or subsidized parking, alternative commute methods, monthly transit passes, etc.).** Enter in column B the amount that you received from your employer, other than salaries or wages, for participating in an alternative transportation method and that is included in the amount on line 21 in column A. For more information, get FTB Pub. 1001.

**Federal foreign income or housing exclusion.** Enter in column C the amount deducted from federal income on Form 1040, line 21.

**Beverage container recycling income.** Enter in column B the amount of this type of income that you included in the amount on line 21 in column A.

**Rebates from water agencies or suppliers.** Enter in column B the amount of this type of income that you included in the amount on line 21 in column A.

**Original issue discount (OID) for debt instruments issued in 1985 and 1986.** In the year of sale or other disposition, you must recognize the difference between the amount reported on your federal return and the amount reported for California purposes.

**Issuers:** Enter the difference between the

federal deductible amount and the California deductible amount on line 21f in column B.

**Holders:** Enter the difference between the amount included in federal gross income and the amount included for California purposes on line 21f in column C.

**Foreign income of nonresident aliens.** Adjust federal income to reflect worldwide income computed under California law. Enter losses from foreign sources in column B. Enter foreign source income in column C.

**Cost-share payments received by forest landowners.** Enter in column B the cost-share payments received from the Department of Forestry and Fire Protection under the California Forest Improvement Act of 1978 or from the United States Department of Agriculture, Forest Service, under the Forest Stewardship Program and the Stewardship Incentives Program, pursuant to the Cooperative Forestry Assistance Act.

**Student loan cancellations.** Enter in column C the forgiven amount of any student loan that was discharged after 8/5/97, and sponsored by a tax-exempt charitable organization, such as educational organizations or private foundations. **Note:** Do not enter the forgiven amount of a California State University student loan discharged on or after 1/1/97.

**Room and board benefits received under the Golden State Scholarshare Trust Act.** Enter in column C the amount of benefits received from the Golden State Scholarshare Trust that represent qualified higher education expenses for room and board.

**Benefits for qualified higher education expenses under a state tuition program.** Enter in column C any benefits you received as a participant under a state tuition program other than the Golden State Scholarshare Trust.

#### Line 22a – Total

Add line 7 through line 21f in column B and column C. Enter the totals on line 22a.

#### Line 22b – Balance Carried Forward

Enter the totals from Side 1, line 22a, column B and column C.

#### Line 30a – Alimony Paid

If you are a nonresident alien and you did not deduct alimony on your federal return, enter the amount you paid on this line in column C.

#### Line 31

Add line 23 through line 30a in column B and column C. Enter the totals on this line in the appropriate columns.

If you claimed the foreign housing deduction, include that amount in the total you enter in column B, line 31. Enter the amount and "Form 2555" on the dotted line next to line 31.

If you claimed a deduction on your federal return (Form 1040, line 31) for expenses you paid or incurred with respect to services you performed as a fee basis official employed by a state or local government, include that amount in the total you enter in column B, line 31. Enter the amount and "FBO" on the dotted line next to line 31.

#### Line 32 – Total

Subtract line 31 from line 22b in column B and column C. Enter the totals on this line in the appropriate column.

## Column D – Total Amounts Using California Law

Use this column to show the amount remaining after adjustments (subtractions or additions).

For each line, 7 through 32:

1. Subtract the amounts in column B from the amounts in column A.
2. Add the amounts in column C to the result of the calculation made in 1 above.
3. Enter the total in column D.

**Note:** In some cases the total on line 32 in column B or column C will be a negative number. Please read the caution note when you get to line 33.

**Line 21 –** If you made any adjustments on line 21 in column B or column C:

- Step 1 Add the adjustments in column B, lines a, b, d, e and f.
- Step 2 Subtract that total from line 21, column A.
- Step 3 Add the adjustments in column C, lines c and f.
- Step 4 Add that total to the result of Step 2; then continue as instructed above for all other lines.

## Column E – California Amounts

In this column, identify the amounts that you earned from all sources while you were a California resident and that you received from sources within California while you were a nonresident.

At the end of this column you will compute the ratio of the California adjusted gross income (line 32, column E) to the adjusted gross income from all sources (line 32, column D). You will use the resulting decimal amount to determine your tax.

Refer to instructions for each line below to be sure you are including the right amounts.

#### Line 7 – Wages, Salaries, Tips, Etc.

Enter all wages, salaries, tips and other compensation you earned while you were a California resident. And, if you performed work in California while you were a nonresident, include the portion of wages or other compensation earned in California. Include moving expense reimbursement for moves into California. Airline employees and Interstate Rail and Motor Carrier employees, get FTB Pub. 1031 for more information.

#### Line 8 – Taxable Interest Income

Enter the interest that you received while you were a California resident. For more information, refer to the instructions for column B and column C, line 8.

#### Line 9 – Dividend Income

Enter all dividends you received while you were a California resident. Include dividends you received from federal S corporations that have elected to be treated as C corporations for California tax purposes.

#### Line 11 – Alimony Received

Enter the alimony that you received while you were a California resident.

#### Line 12 – Business Income or (Loss)

Enter the total amount of profits or losses (computed using California law) from all businesses you conducted while you were a California resident and from all businesses you conducted in California while you were a nonresident of California. If you reported PALS activities in column

D, and only some of them must be included in column E, complete a second form FTB 3801 to compute the California portion of any PALS.

If, as a nonresident you derived income from a business, trade or profession conducted partly within California and partly outside California, only income from the part conducted within California is considered California source income that you must report on this line in column E. If there is any business relationship between the parts within and outside California (flow of goods, etc.), you must apportion the gross income or loss from the entire business. To determine the portion of income or loss from businesses engaged in multistate activities that you must report in column E, use the apportionment formula described in Schedule R, Apportionment and Allocation of Income.

#### Line 13 – Capital Gain or (Loss)

Complete Schedule D, California Capital Gain or Loss Adjustment, to report all transactions that occurred while you were a California resident and those transactions that were related to property located in California while you were a nonresident. Complete Schedule D through line 8 only. Enter the gain from line 7 or the loss from line 8, whichever applies, on this line in column E.

#### Line 15 – IRA Distributions (Taxable Amount)

Enter the taxable portion of IRA distributions you received while you were a California resident. This includes regular distributions, premature distributions and any other money or property you received from your IRA account or annuity. Get FTB Pub. 1005 for more information.

#### Line 16 – Pensions and Annuities (Taxable Amount)

Enter the portion of your taxable pension and annuity income you received while you were a resident of California.

#### Line 17 – Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, Etc.

Enter your 1997 profit or loss from all rents, royalties, partnerships, S corporations, LLCs, estates and trusts that occurred while you were a California resident and profit or loss related to property or business located in California while you were a nonresident of California. If you reported PALS activities in column D and only some of them must be included in column E, complete a second form FTB 3801 to compute the California portion of any PALS.

If you owned an interest in a partnership, an LLC characterized as a Partnership or an S corporation and you were a California resident on the last day of the partnership's or LLC's taxable year or S corporation's income year, you must include your entire distributive share of the partnership's or LLC's profit or loss or your entire pro rata share of the S corporation's profit or loss.

If you were a nonresident of California on the last day of the partnership's or LLC's taxable year or S corporation's income year, include the portion of your distributive share of the profit or loss derived from California sources from the partnership or the LLC, or your pro rata share of the profit or loss derived from California sources from the S corporation.

Your Schedule K-1 (100S, 541 or 565) will indicate the amount of partnership, S corporation, estate, LLC or trust profit or loss that you must include on this line in column E.

**Line 18 – Farm Income or (Loss)**

Enter your profit or loss from all farming activity while you were a California resident **and** for farming activity conducted in California while you were a nonresident of California. If you have PALS activities in column D and only some of them must be included in column E, complete a second form FTB 3801 to figure the California portion of any PALS.

**Line 21 – Other Income**

Enter the amounts derived from California sources or which you accrued, earned or received while you were a California resident that are not included in line 7 through line 18 of column E.

**Line 22a – Total**

Add line 7 through line 21 in column E. Enter the result on this line.

**Line 22b – Balance Carried Forward**

Enter the total from Side 1, line 22a, column E on this line.

**Line 25 – Moving Expenses**

California law and federal law are the same for moving expenses. If you moved:

- Into California in connection with your new job, enter the amount from column A, line 25 in column E, line 25.
- Out of California in connection with your new job, enter zero on line 25.

**Exception:** If you moved out of California in connection with your new job and received compensation from that job attributable to a California source, your moving expense adjustment will be limited by the ratio of California source compensation from the new job to total compensation from the new job.

**Line 23 and Line 28 – IRA, Keogh, SEP and SIMPLE Deduction**

The amount of the California deduction for IRA, Keogh, SEP and SIMPLE contributions is the same as the federal deduction. However, the deduction may be limited by your California compensation or by your California self-employment income.

**Example:** A taxpayer moved into California on December 1. She made contributions to her IRA and claimed a deduction of \$2,000 on her federal return. Her California wages were \$500. Her allowable deduction is the lesser of:

- The federal deduction of \$2,000; or
- The California compensation of \$500.

Therefore, she must enter \$500 on line 23 of column E. She will have made no entry in column B or column C.

Keogh and SEP deductions are limited to a percentage of the federal deduction. That percentage is the ratio of:

Self-employment income reported in column E

Total self-employment income reported in column D

Get FTB Pub. 1005 for more information.

**Line 26 – One-half of Self-Employment Income**

If you claimed a deduction in column A for self-employment tax paid, your California deduction is limited to a percentage of the federal deduction. That percentage is the ratio of:

|  |   |   |
|--|---|---|
| Self-employment income reported in column A from all sources while a CA resident | + | Self-employment income reported in column A from CA sources while a nonresident |
|--|---|---|

Total self-employment income reported in column A

**Line 27 – Self-Employed Health Insurance Deduction**

If you claimed a deduction in column A for payments you made to a health insurance plan while you were self-employed, your California deduction is limited to a percentage of the federal deduction. That percentage is the ratio of:

Total self-employment income reported in column E

Total self-employment income reported in column D

**Line 29 – Penalty on Early Withdrawal of Savings**

Enter the interest penalties charged to you while you were a California resident.

**Line 30a – Alimony Paid**

Enter alimony or separate maintenance payments that you made while you were a California resident.

**Line 31** – Add line 23 through line 30a in column E. Enter the result on this line.

**Line 32 – Total**

Subtract line 31 from line 22b in column E. This is your California adjusted gross income (AGI). Enter the result on this line. Also enter this amount on Form 540NR, Side 1, line 20.

**Line 33 – Ratio**

Ratio =  $\frac{\text{California AGI}}{\text{Total AGI from all sources}}$

Divide the amount on line 32, column E by the amount on line 32, column D. Enter the result on this line and on Form 540NR, Side 1, line 25a.

Also, transfer the amounts from:

- Line 32, column B to Form 540NR, Side 1, line 14;
- Line 32, column C to Form 540NR, Side 1, line 16; and
- Line 32, column E to Form 540NR, Side 1, line 20.

**Caution:** If the amount on Schedule CA (540NR) line 32:

- **Column B** is a negative number, do not transfer it to Form 540NR, line 14. Instead, transfer the amount as a positive number to Form 540NR, line 16; or
- **Column C** is a negative number, do not transfer it to Form 540NR, line 16. Instead, transfer the amount as a positive number to Form 540NR, line 14.

## Specific Line Instructions for PART III Adjustments to Federal Itemized Deductions

**Line 34 – Federal Itemized Deductions**

Enter the total amount of itemized deductions from your federal Schedule A, line 4, 9, 14, 18, 19, 26 and 27 or Schedule A (Form 1040NR), line 3, 7, 8, 15 and 16.

**Important:** If you did not itemize deductions on your federal tax return but will itemize deductions on your California return, first complete federal Schedule A. Then complete Schedule CA (540NR), Part III, line 34 through line 39. Attach a copy of federal Schedule A to your Form 540NR.

**Line 35 – State, Local and Foreign Income Taxes**

Add the following amounts from federal Schedule A and enter on line 35:

- Line 5, state and local income tax (including limited partnership tax and income or franchise tax paid by corporations) and State Disability Insurance (SDI); and
- Line 8, foreign income taxes.

**Line 37 – Other Adjustments Adoption-related expenses**

If you deducted adoption-related expenses on your federal Schedule A and are claiming the adoption cost credit on your Form 540NR, enter the amount of the adoption cost credit claimed as a negative number on line 37.

**Mortgage Interest Credit**

If you reduced your federal mortgage interest deduction by the amount of your mortgage interest credit (from federal Form 8396, Mortgage Interest Credit), be sure to increase your California itemized deductions by the same amount. Enter the amount of your federal mortgage interest credit as a positive number on line 37.

**Nontaxable Income Expenses**

If, on federal Schedule A, you claim expenses related to producing income taxed under federal law but not taxed by California, enter the amount as a negative number on line 37.

You may claim expenses related to producing income taxed by California law but not taxed under federal law by entering the amount as a positive number on line 37.

**Employee Business Expense**

If you had assets placed in service before 1/1/87, and if you completed federal Form 2106, Employee Business Expenses, also complete Form 2106 using California amounts. Compare line 10 on both Forms 2106. If the federal amount is larger, enter the difference as a negative number on line 37. If the California amount is larger, enter the difference as a positive number on line 37. If you used Form 2106-EZ, Unreimbursed Employee Business Expenses, substitute Form 2106-EZ, line 6 for Form 2106, line 10.

**Investment Interest Expense**

Your California deduction for investment interest expense may be different from your federal deduction. You must use form FTB 3526, Investment Interest Expense Deduction, to figure the amount to enter on line 37.

**Gambling Losses**

California Lottery losses are not deductible for California. Enter the amount of California Lottery

losses shown on federal Schedule A as a negative number on line 37.

#### Federal Estate Tax

Federal estate tax paid on income in respect of a decedent is not deductible for California. Enter the amount of federal estate tax shown on federal Schedule A as a negative number on line 37.

#### Generation Skipping Transfer Tax

Tax paid on generation skipping transfers is not deductible under California law. Enter the amount of expenses shown on federal Schedule A as a negative number on line 37.

#### Contribution of Appreciated Stock to a Private Foundation

For contributions made during 1997, enter the difference between the fair market value of the stock and the California basis as a negative number on line 37.

#### State Legislator's Travel Expenses

Under California law, deductible travel expenses for state legislators include only those incurred while away from their places of residence overnight. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference as a negative number on line 37.

**Charitable contribution carryover deduction.** If you are deducting a prior year charitable contribution carryover, and the California carryover is larger than the federal carryover, increase your California itemized deductions by entering the additional amount as a positive number on line 37.

#### Line 39 – California Itemized Deductions

Is the amount on Form 540NR, line 13 more than the amount shown below for your filing status?

|   |           |
|---|-----------|
| Single or married<br>filing separate. . . . .             | \$114,152 |
| Married filing joint or<br>qualifying widow(er) . . . . . | \$228,305 |
| Head of household . . . . .                               | \$171,228 |

**NO.** Transfer the amount from line 38 to line 39. Do not complete the worksheet in the next column.

**YES.** Complete the Itemized Deductions Worksheet in the next column.

### Itemized Deductions Worksheet

1. Enter the amount from Schedule CA (540NR), line 38 . . . 1 \_\_\_\_\_
2. Using California amounts, add the amounts on federal Schedule A (Form 1040), line 4, line 13 and line 19 plus any gambling losses included on line 27 (or on Schedule A (Form 1040NR), line 8 plus any investment interest expense included on line 11 and any gambling losses included on line 16) . . . . . 2 \_\_\_\_\_
3. Subtract line 2 from line 1.  
**Note:** If the result is -0-, **stop.** Enter the amount from line 1 above on Schedule CA (540NR), line 39 . . . . . 3 \_\_\_\_\_
4. Multiply line 3 by 80% (.80) . 4 \_\_\_\_\_
5. Enter the amount from Form 540NR, line 13. . . . . 5 \_\_\_\_\_
6. Enter the amount shown to the left for your filing status . . . 6 \_\_\_\_\_
7. Subtract line 6 from line 5.  
**Note:** If the result is -0- or less, **stop.** Enter the amount from line 1 above on Schedule CA (540NR), line 39 . . . . . 7 \_\_\_\_\_
8. Multiply line 7 by 6% (.06) . 8 \_\_\_\_\_
9. Compare the amounts on line 4 and line 8. Enter the smaller amount here . . . . . 9 \_\_\_\_\_
10. Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule CA (540NR), line 39 . . . 10 \_\_\_\_\_